

Introduction of Ordinance Amending the Alameda Municipal Code by Adding Article 4-60 (Minimum Wage) to Chapter IX (Regulations Concerning Trade and Commerce) Concerning a Citywide Minimum Wage to Raise Alameda's Minimum Wage to \$15.00 per Hour by July 1, 2020; and

Adoption of Resolution Amending the General Fund Operating Budget for Fiscal Year 2018-19. (Economic Development 001)

To: Honorable Mayor and Members of the City Council

From: David L. Rudat, Interim City Manager

### EXECUTIVE SUMMARY

On April 17, 2018, the Alameda City Council directed staff to prepare a minimum wage ordinance for its September 18, 2018 meeting. The proposed ordinance is intended to accelerate increases to the City's minimum wage such that it reaches \$15 per hour by July 1, 2020, 18 months earlier than the January 1, 2022 implementation of a \$15 per hour statewide minimum wage for large businesses. This staff report reviews similar ordinances in other cities, comments from community members, and elements of the proposed ordinance to obtain \$15 per hour by July 2020.

The estimated fiscal impact to the City, as an organization, for implementing a minimum wage through Fiscal Year (FY) 2020 is \$459,000 (including \$14,000 for Alameda Municipal Power (AMP)) for costs associated with part-time city employees and contracted services. These costs include increasing base salaries for employees at the minimum wage, contract increases for janitorial and other contract services, public education and enforcement, and a "buy local" campaign. This cost is also offset by the amount that salaries and contracts would have otherwise increased due to increases in the State's minimum wage schedule. Addressing salary compaction issues for existing employees is estimated at an additional \$298,000, for the total of \$757,000. Should the City Council choose to introduce the Ordinance, staff recommends appropriating \$57,000 in FY 2018-19 for personnel and expenses to provide community education and enforcement associated with raising the minimum wage in Alameda.

### BACKGROUND

In April 2016, the State of California adopted legislation (SB 3, Leno) to reach a statewide \$15.00 per hour minimum wage by January 1, 2022 for "large businesses" and January 1, 2023 for "small businesses". After 2023, the minimum wage will be adjusted annually for inflation (national Consumer Price Index, CPI), with a ceiling of 3.5 percent.

Many Bay Area cities have enacted minimum wage ordinances with more aggressive timetables than the State's for reaching the \$15 per hour level. In most of these local ordinances, once the \$15 per hour level is reached, the minimum wage will continue to increase annually by the rate of the CPI. Hence, by reaching the \$15 level sooner, and

including the annual CPI adjustment, these jurisdictions will continually be above the State's minimum wage requirements.

Three Bay Area cities—Emeryville, Mountain View, and Sunnyvale—have already achieved a \$15 minimum wage, and Berkeley's minimum wage will increase to \$15 in October 2018. Large employers in Emeryville pay the highest rate in the country at \$15.69 per hour.<sup>1</sup> By comparison, the City of Alameda's current minimum wage, which follows the State baseline standards, is \$10.50 for small employers, i.e. employers with 25 or fewer employees and \$11 for those employers with more than 25 employees.

On April 17, 2018, the Alameda City Council directed staff to prepare a minimum wage ordinance for consideration at its September 18, 2018 meeting.

## DISCUSSION

In the Bay Area, 18 cities have implemented minimum wage measures that are more aggressive than State law. The majority, eleven, are in the South Bay/Silicon Valley region. In addition to San Francisco, the remaining six are in the East Bay along the 80/880 corridor. No cities in Marin County or in the interior part of Contra Costa County have adopted minimum wage ordinances (See Exhibit 1: Bay Area Cities with more aggressive timetables to reach \$15/hour).

The cities differ in the length of time and the average annual percent increase to reach the \$15 standard (the "on-ramp" time). The State's minimum wage law reaches \$15 over five years, with an average increase of 7.4 percent per year. For Bay Area cities, the length of the on-ramp ranged from two to seven years with the percentage increase between 2.6 percent and 16.7 percent. In general, shorter on-ramps translate to larger percentage increases per year to reach the \$15 per hour wage.

Many of the minimum wage ordinances in the South Bay are coordinated to reach \$15 per hour in January 2019. This coordination was fostered by a regional study commissioned by the Cities Association of Santa Clara County (Cities Association) and the City of San Jose and conducted by the UC Berkeley Labor Center. The Cities Association adopted a recommended model ordinance for implementing minimum wage increases in Santa Clara County. The cities in Santa Clara County approved their ordinances between 2015 and 2017.

In the East Bay, Berkeley, Oakland, San Leandro, Emeryville, El Cerrito, and Richmond have adopted minimum wage ordinances. Oakland's ordinance was a ballot initiative approved by voters in 2014; the other ordinances were passed by respective city councils between 2014 and 2017. While the minimum wages in these jurisdictions vary, almost all will reach \$15 per hour sooner than the statewide minimum wage.

The exception is Oakland. Oakland's minimum wage increases are based on the CPI and are projected to reach \$15 at approximately the same time as the State minimum wage. Oakland's minimum wage has no ceiling on its annual CPI adjustment.

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<sup>1</sup> Emeryville is the only Bay Area city with a minimum wage ordinance that makes a distinction between small and large businesses.

Consequently, when the CPI first climbs above the State's ceiling of 3.5 percent annual increase, Oakland's minimum wage will perpetually be above the State's.

Noteworthy is San Leandro's minimum wage ordinance because it contains no CPI adjustment. After four years of incremental increases, it will reach \$15 per hour in July 2020. After that, the ordinance sunsets and the minimum wage stays at \$15 until the State's annual CPI increases begin in 2024.

There are also variations in whether local ordinances include provisions for pausing wage increases due to economic circumstances, so-called "off-ramping provisions," modeled after State law. Under the State law, the wage increase schedule may be temporarily suspended by the Governor during an economic downturn (determined by six straight months of declining employment or sales tax receipts and other factors). For both the State and local ordinances, the off-ramps do not apply once the minimum wage reaches \$15 per hour.

The five Bay Area cities with off-ramp provisions (Cupertino, Los Altos, Milpitas, San Jose, and Santa Clara) had incremental increases to reach \$15.00, which took between three to four years to reach. These cities felt it was important to include an off-ramp provision in order to protect businesses during a downturn in the economy.

In each of these cities, determinations are made annually, several months in advance of the next scheduled wage increase, which is often in January. Typically, a city department gathers information from the State Employment Development Department and State Board of Equalization and makes a recommendation to the city manager, who makes the official determination. For example in Cupertino, the City Manager submits a determination to the City Council stating whether any of the economic conditions are met for pausing the minimum wage increases. By October 1, the City Council decides whether to suspend the minimum wage increase that was set to take effect the following year.

For the State, the Governor can pause a later scheduled increase for one year if certain economic or budget conditions are met. The off-ramps can only be used twice. The conditions for pausing a scheduled increase are as follows:

- Seasonally adjusted statewide job growth for either the prior three or six months is negative and retail sales receipts for the prior 12 months are negative.
- The increase is projected to cause a deficit (defined as a negative operating reserve of more than one percent of annual revenues) in the current state budget or in the budget forecast for either of the next two fiscal years.

On August 1 of each year the Governor will make a preliminary determination on whether the conditions are met for pausing the following year's increase. A final determination must be made by September 1.

## Wage Labor in Alameda

In community meetings about minimum wage held this summer, many people asked about the number of minimum wage workers in Alameda. The State's Economic Development Department (EDD) has a database that provides some broad information about the size and scope of hourly workers and the businesses that employ them in Alameda. In short, this is a sizable sector of Alameda's economy. In 2017, five industry categories that largely hire hourly workers employed 6,966 people in Alameda, or 25% of all workers in Alameda, working in 487 businesses (see Table 1 below). From 2014 to 2017, the number of jobs in these sectors—particularly in Accommodations and Food Services—grew by 870 jobs.

**Table 1: Industries Employing Hourly Wage Workers**

Industry Category	Total Employment			Number of Firms		
	2014	2017	% Change	2014	2017	% Change
Retail Trade	2,086	2,376	14%	166	178	7%
Nursing and Residential Care Facilities	485	510	5%	15	13	-13%
Child Day Care Services	278	279	0%	34	31	-9%
Accommodation and Food Services	3,027	3,533	17%	194	216	11%
Personal Care Services	220	268	22%	42	49	17%
<b>Industry Totals</b>	<b>6,096</b>	<b>6,966</b>	<b>14%</b>	<b>451</b>	<b>487</b>	<b>8%</b>
Citywide Total	23,612	27,704	17%	2,333	2,555	10%
Share of Citywide Total	26%	25%		19%	19%	

*Source: State of California Economic Development Department and City of Alameda, Economic Development and Community Services Division*

## Community Engagement

City staff has solicited comments from local businesses, residents, and employees about a possible increase to the local minimum wage (See Exhibit 2: List of Community Outreach Activities). Communication activities included:

- On-line surveys for local businesses, residents, and employees;
- Individual briefings to community groups, labor organizations, the Alameda Unified School District (AUSD), College of Alameda, Alameda Hospital, and executive directors of local non-profit organizations;

- Presentations to business associations' board of directors and membership meetings;
- Four community workshops; and
- Presentations to Social Services Human Relations Board (SSHRB) and the Mayor's Economic Development Advisory Panel (EDAP).

## **A. On-Line Survey Results**

Staff created two separate on-line surveys: one for local business owners and managers, the other for local residents and people who work in Alameda. The surveys were launched on Tuesday, June 26, 2018, and closed on Sunday, July 22, 2018. Both surveys were also translated into Korean, Spanish, Vietnamese, and Chinese. The surveys were promoted through a news release and email notifications to the local business organizations, the South Shore and Alameda Landing Shopping Centers' property managers, the inter-faith community, labor and community organizations, non-profit organizations, and the members of the Alameda Collaborative for Children and their Families (ACCYF), SSHRB, and EDAP. Staff also made personal visits to 19 nail salons and small restaurants on Park and Webster Streets and Central Avenue. Two of these businesses completed the Vietnamese-translated survey and their answers were included in the survey results.

The survey results illustrate the differences of opinions in the community over raising the minimum wage. In general, the residents/employees and businesses were diametrically opposite in favoring a minimum wage increase: 58% of residents/employees and 22% of businesses strongly favor it, while 19% of residents/employees and 53% of businesses strongly oppose it. However, a plurality in both surveys agreed that an increase in the minimum wage will result in higher prices for goods and services in Alameda (See Exhibit 3: Survey Results).

*Employer Survey.* Seventy nine (79) business owners or managers answered the employer survey. Most of the answers were from full and limited service restaurants (20 respondents), office (such as information, legal, finance, and insurance with 10 respondents), and non-profit organizations (7 respondents), retail (5 respondents), and manufacturing (5 respondents).

In general, the respondents tended to represent smaller businesses: 45% had fewer than ten employees. In addition, 58% of the respondents had at least some employees who earned minimum wage. This 58% of survey respondents may be considered the "impacted" group; businesses with at least some minimum wage workers are more likely to be impacted by a minimum wage increase than are businesses with no minimum wage workers. Close to three-quarters of the respondents (73%) had at least some employees that earned between \$11.01 and \$15.00. Over one-third (39%) had almost all of their employees making between \$11.01 and \$15.00.

Most of the businesses tended to be against an increase, to anticipate negative consequences if an ordinance is passed, and to be skeptical of possible benefits of an ordinance. The overall key findings include:

#### Negative Consequences

- Just under half (47%) said they were “very likely” to reduce the hours of their minimum wage employees.
- Just under half (47%) also said they were “very likely” to reduce the total number of workers they employ.
- Close to two-thirds (62%) reported they will “very likely” raise prices.

#### Skepticism

- Over two-thirds (70%) said that it was “not at all likely” that their costs of employee turnover would decrease because employees will be less likely to quit.
- A majority (51%) also did not think that it will result in their minimum wage employees being more satisfied and productive.
- Less than half (40%) disagreed that an increase will help reduce income inequality in our community.

#### Overall opinion

- A majority (53%) “strongly opposed” raising the minimum wage.

Resident and Employee Survey. Seven hundred forty-seven (747) people took the resident and employee survey. Over 96% are Alameda residents and 42% work in Alameda. Of survey respondents who worked in Alameda, approximately 12.5% made \$11 or less per hour, while 76% made over \$15 per hour. The resident and employee respondents overwhelmingly supported an increase to the minimum wage in Alameda. The overall key findings include:

#### Positive Consequences

- Two-thirds (66%) agreed that “an increase in the minimum wage will help me or other people in our community.”

#### Doubts about negative impacts

- Half of the respondents (50%) either “somewhat disagreed” or “disagreed” that an increase will make it harder to start and grow businesses in our community.
- Less than half (38%) agreed that a higher minimum wage will reduce the number of workers in local businesses, since businesses will need to find ways to pay for the wage increase.

#### Overall opinion

- More than two-thirds (68%) agreed that an increase in the minimum wage makes sense because it is expensive to live in Alameda and the East Bay.
- Close to two-thirds (60%) “agreed” or “somewhat agreed” that “an increase in minimum wage will result in higher prices for the things that I buy and the services I need in Alameda.”
- Close to two-thirds (65%) “agreed” or “somewhat agreed” that “I am willing to pay more for the goods and services in Alameda, if the prices increase due to a higher minimum wage.”
- A majority (57%) “strongly favor” raising the minimum wage.

## **B. Stakeholder Comments**

In meetings with business and community organizations, the City presented three scenarios based on San Leandro and Redwood City ordinances to encourage discussion and illustrate different aspects of a minimum wage ordinance. Staff also made similar presentations in four community workshops. The workshops were sparsely attended almost exclusively by local businesses, which created a focus group-like setting. Staff also presented a matrix of different components included in other ordinances in the Bay Area (See Exhibit 4: Workshop Scenarios and Matrix).

*Businesses.* As with the business survey results, the views expressed at business association meetings were not monolithic, but were generally in opposition to an ordinance. Some of the most common opinions were:

- The increase in minimum wage will lead to wage adjustments for higher paid employees, an issue known as “compaction.”
- It would also increase FICA, Medicare, and workers compensation expenses as they are tied to employee compensation. Consequently, an ordinance should consider total compensation instead of just minimum wage.
- It will increase the wage disparity between restaurant servers (tipped employees) and the rest of the kitchen staff. Many restaurants recommended excluding tipped employees from the ordinance, since they already make substantially more than the minimum wage rate. However, state law does not allow restaurants to differentiate between tipped and non-tipped employees.
- The market, not local government, should be allowed to determine wages.
- Some restaurant owners stated that they would like to increase their minimum wage, but it would result in prices higher than their competition. Consequently, they favor a minimum wage ordinance because it would provide a “level playing field” among similar types of businesses.
- Increasing wages will simply lead to higher costs (inflation), negating any real benefit of the ordinance.

- Some suggested that the City launch a robust “buy local” campaign if it passes an ordinance, since an ordinance could cause increased prices and potential loss of customers. They also suggested scheduling some small business workshops on how to increase revenue to counterweigh the impacts of an ordinance.
- A few expressed concern that it would lead to higher youth unemployment, since youth are considered the most inexperienced and unskilled workers in the labor force. Similarly, some employers said it would be hard to justify giving a large increase to teenagers who require a lot of training.

*Non-Profit Organizations.* Staff met with the executive directors of the Food Bank, Girls Inc., Friends of the Alameda Animal Shelter, Alameda Point Collaborative, Alameda Education Foundation, the Alameda Housing Authority, and Meals on Wheels. The non-profit agencies supported the City moving forward with a minimum wage increase. However, many local non-profit organizations are funded by fees, not grants. As a result, some of the executive directors stressed that increasing the minimum wage will impact Alameda families since the new expense would be passed on through higher fees for services.

The executive directors also preferred that the phased increases be implemented in July, to match with their fiscal year. This will allow their organizations to make adjustments within the fiscal year budgets and allow time to alert families of fee increases before the new Fiscal Year (FY) 2019-20.

*Government Entities.* The City met individually with the AUSD, the College of Alameda (Peralta Community College District), and the Alameda Hospital. The City cannot impose a minimum wage on Federal, State, or County agency employees, and other governmental entities. However, the City informed these governmental agencies that a local minimum wage ordinance is applicable to their contracted labor.

*Organized Labor and Other Community Organizations.* Staff met with representatives from the United Food and Commercial Workers (UFCW) Local 5, the Carpenters Union Local 713, the Alameda Renters Coalition, and the Alameda Justice Alliance (whose members include the Alameda Renters Coalition, the Alameda Progressives, the Alameda County Labor Council, City of Alameda Association of Firefighters, Alameda for Black Lives, the Buena Vista United Methodist Church, Renewed HOPE, and the Filipino Advocates for Justice).

Their general sentiment was that the minimum wage increase could not happen soon enough due to the high cost of living in the Bay Area. Attendees advocated that the initial phased increase should be \$14 or more. They pointed out that the In & Out in Alameda is already paying \$14.50 per hour with benefits.

They also said that the minimum wage increase should be to help workers, not to create policies that would allow deductions to minimum wage. For example, they did not support “learner” type of on-the-job training programs that pay below minimum wage until the training period is over. There are instances, they said, where employers would regularly terminate “learners” before the end of the training program. They also did not support housing or other types of benefit deductions, as an employee should not be dependent upon an employer for housing. Finally, they opposed a distinction between small and large businesses since it would create a dual labor market; the minimum wage should benefit the employee regardless the size of the business.

Mayor’s Economic Development Advisory Panel (EDAP). Staff discussed a possible minimum wage ordinance with the EDAP at its June 21, 2018 meeting. Some panel members highlighted that paying \$15 per hour is going to happen, it is just a question of when. These panel members said that businesses would want to be ahead of the trend—and not be the last ones to raise wages—in order to attract talented workers. They also pointed out that Silicon Valley has a much more expensive labor market than Alameda; therefore, a fairer comparison is to Oakland and San Leandro. Finally, some Panel members favored a cap on the CPI adjustments. This would build predictability and certainty into cost estimates and budget models by being able to anticipate the maximum amount of wages in future years.

Social Services Human Relations Board (SSHRB). Staff also reviewed a possible minimum wage ordinance with the SSHRB at its June 28, 2018 meeting. SSHRB members were supportive of the increase, but expressed concern about the timetable for implementing an ordinance, particularly for non-profit organizations that budget on the fiscal calendar and rely on fees for services. The budget for FY 2018-2019 has already been set. A new increase in the minimum wage in January or March would significantly impact existing budgets. Fee for services organizations do not have the ability to change course on their income stream midway through the fiscal year.

Also, they said that too quick an increase may hurt smaller non-profits and businesses, such as restaurants, and may cause the loss of some employees. These businesses and agencies can only raise prices so much over a given period. Therefore, SSHRB members recommended a gradual, phased-in approach over multiple years. If Alameda ramps up to \$15 over a very short amount of time, it is not following the examples set by most cities that have a longer implementation period.

Finally, given that a large number of businesses have non-English speaking employees and proprietors, SSHRB encouraged the translation of surveys into other languages and making one-on-one visits to such businesses as nail salons (which staff has done).

## **Proposed Ordinance**

Based on the direction at the April 18, 2018 City Council meeting, ordinances from other cities, and responses from key stakeholders, staff recommends the following key parameters if the Council decides to move forward with an ordinance:

- Increase local minimum wage in two steps: \$13.50 per hour on July 1, 2019, and \$15 per hour on July 1, 2020;
- No distinction between small and large businesses;
- No change in \$15 per hour minimum wage in 2021;
- An annual CPI adjustment starting on July 1, 2022 capped at 5%; and
- An off-ramp to pause the minimum wage for one year if the State makes an official determination to pause the State minimum wage before July 1, 2020.

Covered Employees. The minimum wage requirement in the draft ordinance applies to adult and minor employees who work two or more hours per week within the City's geographic boundaries. Covered employees are entitled to these rights regardless of immigration status. This is the definition used by almost all Bay Area cities.

Amount and Timeframe. Under State law, on January 1, 2019, the minimum wage for small and large employers in Alameda will increase to \$11.00 and \$12.00 respectively, or a 4.8% and 9% gain over the previous year.

The draft ordinance increases the minimum wage in two increments in 2019 and 2020, making no distinction between small and large businesses. The first City increase would occur on July 1, 2019, six months after the State-mandated increase on January 1, 2019, which allows time for the City to conduct public outreach and business workshops and for businesses to incorporate the wage changes into their budgets. The first increase will raise the minimum wage to \$13.50 per hour for all businesses. This correspondingly represents a 22.7% and 12.5% step increase for small and large businesses from the January 2019 statewide increase. The second increase will occur on July 1, 2020, and raises the wage to \$15.00 per hour, or an 11.1% increase from July 1, 2019. Under this proposed schedule, Alameda will reach \$15 at the same time as San Leandro and 1½ years ahead of the State. There would not be another increase until July 1, 2022.

Starting on July 1, 2022 (and every July 1 thereafter) all employers in Alameda would be subject to an annual CPI adjustment with a ceiling of up to 5% per year. Staff recommends a 5% cap on CPI to build predictability and certainty into cost estimates and budget models thereby enabling businesses to anticipate the maximum amount of wages in future years, but still allow wage earners' incomes to increase as inflation increases. The City will be implementing its annual CPI adjustments 1½ years before the State, whose CPI adjustment begins in January

2024 (See Chart Exhibit 5: Chart of Proposed Implementation Schedule and Table 2 (below): Proposed Implementation Schedule).

**Table 2: Proposed Implementation Schedule**

Effective Date	State of California (small)	State of California (large)	Proposed Alameda	Oakland	San Leandro
January, 2017	\$10.00	\$10.50		\$12.86	\$12.00
January, 2018	\$10.50	\$11.00		\$13.23	
July, 2018					\$13.00
January, 2019	\$11.00	\$12.00	\$12.00	\$13.65	
July, 2019			\$13.50		\$14.00
January, 2020	\$12.00	\$13.00		\$14.06	
July, 2020			\$15.00		\$15.00
January, 2021	\$13.00	\$14.00		\$14.48	\$15.00
January, 2022	\$14.00	\$15.00		\$14.91	\$15.00
July, 2022			\$15.45		
January, 2023	\$15.00	\$15.00		\$15.36	\$15.00
July, 2023			\$15.91		
January, 2024	\$15.45	\$15.45		\$15.82	\$15.45
July, 2024			\$16.39		

*Shaded areas show a hypothetical CPI increase of 3%.*

Noticing and Employee Protections. Other significant terms of the draft ordinance require employers to post a notice at the workplace of the current and prospective minimum wage rates and the employees' rights under the local law; maintain payroll records for a period of four years; and allow authorized City representatives to review such records as part of any investigation. The draft ordinance prohibits retaliation or discrimination against any person seeking to enforce its terms.

Enforcement and Penalties for Violation. Staff recommends that enforcement of the ordinance be handled on a complaint-driven basis. Should an employer be found out of compliance with the Ordinance, the employer is subject to an administrative or criminal citation under the Municipal Code. In addition, an employer found out of compliance may be required to pay back wages unlawfully

withheld or underpaid and be subject to \$50/day in civil penalties, both to affected employees and to the City..

Exceptions for other Governmental Agencies. The City cannot impose a minimum wage on Federal, State or County agency employees, including school districts. Each has its own jurisdiction and is not subject to City oversight when it relates to their government function. They can subject themselves to the City's Ordinance, if they choose, but they are voluntarily consenting to the City's regulations in that case. Businesses that contract with or provide services to such agencies; however, are subject to the Ordinance.

### **Analysis of Other Policy Options**

The proposed ordinance covers all employees in the city who work two or more hours a week, except those employed by governmental agencies. The draft ordinance also provides a ceiling of 5% on the annual CPI adjustment and an off ramp provision. A number of other issues were analyzed and are discussed below.

- **“Learner”/Job training programs** — Transitional jobs programs (TJP) provide short-term, subsidized employment and supportive services to help participants overcome barriers to employment. These may include programs for the formerly incarcerated, youth from disadvantaged backgrounds, adults with mental health or physical challenges and the homeless. These programs are generally operated by non-profit organizations and funded by public contracts and philanthropy.

TJP client employees receive a range of services from their employers, including vocational training, legal services, counseling and self-sufficiency support. As a result, TJP operators have additional per-employee costs for “wrap-around services” that may run up to 50 percent of the hourly wage. Nevertheless, staff is not recommending that employees who are part of job training or “leaner” type programs be exempt from the Ordinance following the recommendation of the Alameda Justice Alliance.

- **Collective Bargaining Waiver** — Other cities have included language that allows for all or any portion of the minimum wage requirements to be waived in a bona fide collective bargaining agreement if such a waiver is explicitly set forth in an agreement. The waiver for collective bargaining was the only exemption recommended in the Cities Association model ordinance. UFCW recommended that the City not include this provision in its ordinance and it is not included.
- **One year deferral for Nonprofits** — A number of cities with minimum wage ordinances, such as Berkeley, Redwood City, and Los Angeles, have provided slower phase-ins for nonprofit organizations. These jurisdictions expect wages paid by non-profit organizations to eventually catch up to those paid by for-profit employers, but they defer the increase in the minimum wage for a year or more. Rather than a one year deferral, staff recommends that the ordinance's effective

date be July 1, 2019, to address concerns raised by nonprofits and discussed above.

- **Health benefits** — Almost all cities with a minimum wage ordinance require that the minimum wage be paid regardless of whether an employer provides medical benefits to employees. Some minimum wage ordinances explicitly state and emphasize that employers may not pay less than the minimum wage even if they provide medical benefits. An exception to this is the City of Richmond, which allows employers to pay Richmond’s minimum wage minus \$1.50 per hour if the employer pays at least \$1.50 per hour toward an employee medical benefits plan.
- **Housing or meal benefits** —A few cities (Cupertino, Los Altos, Milpitas, San Jose, and Santa Clara) allow employers to offset a portion of the minimum wage for housing and meal costs, as long as the offsets are the same as those available under the California Minimum Wage Law. The ordinances that allow the offset for housing and meal costs state that there must be a prior voluntary agreement between the employer and the employee.
- **Young adults** — The reason to exempt teens from a minimum wage is to create incentives for hiring young, entry-level workers. However, an unintended consequence of such an exemption is that employers may choose to hire teenagers (who can afford to work at a lower rate) rather than hiring low-income adult workers. Approaches by other cities:
  - No special provisions for teens.
  - Exempt youth training programs operated by a non-profit corporation or government agency (Sacramento, Richmond, Berkeley, San Diego).
  - Exempt publicly subsidized job-training and apprenticeship programs for teens (San Francisco).
- **Distinction between small and large employers** — The State of California, Los Angeles, Los Angeles County, Long Beach, and Santa Monica delay the schedule by one year for businesses with less than 25 employees. Besides Emeryville, no other city in the Bay Area has adopted this exemption.
- **Tipped employee exemption** — Tipped employees who primarily work at restaurants often make more than minimum wage with tips. However, California is one of several states that does not allow employers to use an employee's tips as a credit toward its obligation to pay the minimum wage; all employees must receive minimum wage regardless of receipt of tips.

Several South Bay cities--Cupertino, Los Altos, Santa Clara, and Sunnyvale--allow *guaranteed gratuities and commissions* to constitute part of the wage when “the commissions or guaranteed gratuities are earned and paid together with

other compensation paid to an employee and are equal to or greater than the current minimum wage.”

### **Next Steps to Implement an Ordinance**

Pending implementation of this ordinance, staff would conduct extensive outreach this fall and winter to notify employees and businesses of the higher minimum wage requirement beginning on July 1, 2019:

- Organize small business workshops on cost savings measures;
- Organize business workshops on proper noticing;
- Roll out robust “buy local” campaign to support local businesses, which will include an expanded Restaurant Week promotion;
- Implement required public noticing, including posters and website;
- Create and circulate frequently asked questions, wage notification posters, and other fact sheets;
- Design and mail post cards to all Alameda businesses informing them of the new ordinance; conduct annual direct mailing before every step increase; and
- Work with City Attorney’s Office to change City’s contract template, as needed.

### **FINANCIAL IMPACT**

The impact to the General Fund is estimated to be \$57,000 in FY 2018-19, \$276,000 for FY 2019-20 and \$410,000 for FY 2020-21. The total cost for the first two and a half years of implementing the ordinance is estimated to be \$743,000, not including \$14,000 for AMP contractual services. Accelerating the minimum wage will increase the City’s General Fund and other Funds in four areas:

1. Increasing wages for the City’s minimum wage and hourly employees;
2. Increasing City contract amounts for janitorial and other contracted services;
3. Devoting resources for enforcement, public education, and noticing for the new ordinance; and
4. Devoting resources for “buy local” campaign.

### **Fiscal Impact – City Employees**

There are a significant number of part-time, non-permanent employees primarily in the City’s Recreation and Parks Department and the Library who make less than the proposed minimum wage. Additionally, increasing the wage of these classifications will cause compaction to other classifications. The wages for persons in these slightly higher paid classifications will need to be adjusted as well. Under current staffing levels, there are approximately 315 part-time employees who would be impacted either directly or through compaction.

The Human Resources Department has worked closely with Recreation & Parks (ARPD) and the Library Departments to estimate the cumulative impact of these changes.

Based on the State of California's schedule, the City is already on track to reach a \$15 per hour minimum wage on January 1, 2022. Accelerating the minimum wage increase to \$15 per hour on July 1, 2020, as proposed, would result in the City incurring incrementally higher salary costs 18 months earlier than originally anticipated.

The City's minimum wage will increase to \$12 per hour on January 1, 2019, in accordance with the State's schedule, with an estimated six month impact of \$29,000 to base salaries (January 1 – July 1, 2019). This cost is already anticipated in the Fiscal Year 2018-19 Budget.

Should the minimum wage be accelerated to \$13.50 per hour on July 1, 2019, as proposed, staff estimates that salary costs would increase by approximately \$39,000 in Fiscal Year 2019-20. Should the minimum wage be accelerated further to \$15.00 per hour on July 1, 2020, staff estimates additional salary costs would be increased approximately \$98,100 starting in Fiscal Year 2020-21. These cost estimates are offset by the amount that base salaries would have otherwise increased under the state's currently scheduled minimum wage increases. Most of the cost increases are expected in the Recreation and Library programs, both of which are subsidized by the General Fund.

Staff has also identified significant salary compaction issues related to the increase in the minimum wage that will require additional subsidy from the General Fund. It is estimated that the cost associated with adjusting salaries for current part-time employees with four years of service or more could be as much as \$102,000 as a result of the increase from \$12 per hour to \$13.50 per hour and as much as \$196,000 for salary increases associated with the change from \$13.50 per hour to \$15 per hour.

ARPD will be particularly affected since it employs over 90% of the City's part-time labor force. Its part-time labor costs are recovered through a combination of program fees and the General Fund transfer to the Recreation Fund. The General Fund transfer will need to increase in order to offset this wage increase. ARPD does not believe it can raise fees high enough to cover increase in estimated labor cost. It would reduce ARPD's ability to remain competitive with other similar programs and subsequently lead to an overall reduction in participants and, therefore, total revenue. The 2019 Recreation and Parks User Fee Schedule will be presented to City Council for approval by December 2018, and will include a fee increase of 3% - 5%, which is manageable for users and will keep the program fees competitive. The increase in the General Fund transfer will be included in the proposed two-year budget for FY 2019-21. Other part-time staff costs normally funded by the General Fund, such as Park Maintenance and Library, will also be included.

Although staff is recommending a 5% cap on the annual CPI, these adjustments have ramifications on the scope of compaction. There is potential for higher annual increases for the City's minimum wage employees during high inflation periods. Higher rates of

inflation translates into increasing the City's wages for minimum wage earners and those impacted by compaction, and increasing the City's portion of contributions for the employees impacted by compaction, as well as, increasing PARS, workers compensation, and unemployment insurance contributions for part-time employees.

### **Fiscal Impact – Contracted Services**

Alameda Municipal Power (AMP), Alameda Police Department, and the Public Works Department currently have service contracts (e.g. janitorial, landscaping, and crossing guard services) that use minimum wage and other hourly employee classifications. These contracts will need to be augmented by \$44,000 in General Funds and \$6,000 in funds from AMP in FY 2019-20 and \$66,000 in General Funds and \$8,000 in funds from AMP in FY 2020-21 to conform to the proposed minimum wage ordinance.

In FY 2019-20, staff estimates that salary and contract increases to achieve compliance with the proposed ordinance would result in approximately \$185,000 in General Fund costs. For FY 2020-21, staff estimates these General Fund costs would be approximately \$360,000. The total cost for the next two years is estimated to be \$545,000. The General Fund subsidy may be reduced with an increase in the program fees.

**Enforcement and Public Education.** Because the proposed minimum wage would diverge significantly from the rest of the State, particularly within the first three years, outreach and enforcement efforts within the City of Alameda are critical to ensuring compliance. The City, however, has never regulated wages on such a comprehensive and universal manner, so it is currently unknown precisely what level of staff support will be required to ensure compliance.

Typical duties of enforcement include community outreach, business workshops, fact sheets, public notices and mailings, compliance review, and managing a complaint-based process. Staff recommends hiring a quarter-time person during the first six months of 2019 (approximately \$27,000) to prepare for the implementation of the new minimum wage, a half-time person for the first year of implementation (approximately \$56,000), then reducing the position to quarter-time during the second year (approximately \$30,000) and every year thereafter. Staff recommends that an additional \$30,000 be budgeted for the first six months of 2019, \$15,000 for FY2019-20, and \$10,000 every year thereafter be budgeted from the General Fund for public education materials, mailings to all businesses in Alameda, supplies and material to conduct business workshops and extended outreach.

**“Buy Local” Campaign.** Staff forecasts that a coordinated “buy local” campaign—incorporating print advertisements, posters, placement of news articles, coupon mailers, and storefront window decals—would cost \$20,000 from the General Fund in the first year of implementation, which could decrease in subsequent years.

### **SUMMARY**

The total cost for the first two and a half years of implementing the ordinance is estimated to be \$743,000, not including \$14,000 for AMP contractual services.

Tables 3a, 3b and 3c below outlines, by Fiscal Year, the fiscal impact of accelerating the minimum wage on city-wide salary and benefits, service contracts, public education and enforcement, and a buy local campaign.

**Table 3a: FY 2018-19 Financial Impact of Accelerated Minimum Wage Increase Including Addressing Salary Compaction**

Enforcement	\$27,000
Public Education	\$30,000
<b>Total (FY2018-19)</b>	<b>\$57,000</b>

**Table 3b: FY 2019-20 Financial Impact of Accelerated Minimum Wage Increase Including Addressing Salary Compaction**

*Increase from \$12.00 to \$13.50 per hr.*

Recreation & Parks*	\$101,000
Library*	\$38,000
All Other Departments*	\$2,000
Police (Crossing Guard Contract)	\$20,000
Public Works (Janitorial Contract)	\$24,000
Enforcement	\$56,000
Public Education	\$15,000
“Buy Local” Campaign	\$20,000
<b>Total (FY2019-20)</b>	<b>\$276,000</b>

*\*Cost estimates include additional PARS and Medicare contributions. Cost of insurance for unemployment and workers' compensation are also expected to increase, but difficult to predict.*

**Table 3c: FY 2020-21 Financial Impact of Accelerated Minimum Wage Increase Including Addressing Salary Compaction (Cumulative)**

*Increase from \$13.50 to \$15.00 per hr.*

Recreation & Parks*	\$215,000
Library*	\$76,000
All Other Departments*	\$3,000
Police (Crossing Guard Contract)	\$30,000
Public Works (Janitorial Contract)	\$36,000
Enforcement	\$30,000
Public Education	\$10,000
“Buy Local” Campaign	\$10,000
<b>Total (FY2020-21)</b>	<b>\$410,000</b>

*\*Cost estimates include additional PARS and Medicare contributions. Cost of insurance for unemployment and workers' compensation are also expected to increase, but difficult to predict.*

## MUNICIPAL CODE/POLICY DOCUMENT CROSS REFERENCE

Raising the minimum wage is consistent with the 2018 Economic Development Strategic Plan, Workforce Development Strategy 9.4: "Compare the minimum wage requirements of surrounding cities and prepare a minimum wage ordinance for City Council consideration. Collaborate with employers, business associations, labor organizations, community organizations to conduct community meetings and to solicit community concerns."

## ENVIRONMENTAL REVIEW

If the City were to adopt a minimum wage ordinance, the ordinance would be categorically exempt from review under the California Environmental Quality Act (CEQA), pursuant to Section 15324 of the State CEQA Guidelines, actions taken by regulatory agencies to regulate employee wages, hours of work, or working conditions are exempt from CEQA review.

## RECOMMENDATION

Introduce an ordinance to raise Alameda's minimum wage to \$15.00 per hour by July 1, 2020 and adopt a resolution amending the General Fund operating budget to appropriate \$57,000 for personnel and expenses associated with raising the minimum wage.

Respectfully submitted,  
Debbie Potter, Community Development Director

By,  
Eric Fonstein, Development Manager

Financial Impact section reviewed,  
Elena Adair, Finance Director

### Exhibits

1. List of Bay Area Cities
2. Community Outreach
3. Survey Results
4. Workshop Scenarios and Matrix
5. Proposed Implementation Schedule